

Message Text

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PAGE 01 TEL AV 03046 021539Z
ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
-----021547Z 094992 /43
P 021442Z MAY 77
FM AMEMBASSY TEL AVIV
TO SECSTATE WASHDC PRIORITY 5954

C O N F I D E N T I A L TEL AVIV 3046

EXDIS

E.O. 11652: GDS
TAGS:EAID, IS
SUBJECT: ISRAEL'S REQUEST FOR U.S. \$300 MILLION CASH GRANT FOR FY-78

REF: STATE 096508

1. FINANCE MINISTRY DIRECTOR GENERAL SIVAN AND ECONOMIC ADVISOR DOVRAT, NOW IN WASHINGTON, ARE MOST KNOWLEDGEABLE GOI OFFICIALS ON ULTIMATE END USE OF U.S. ASSISTANCE. DEPT MAY WISH TO QUERY THEM ON THIS SUBJECT.

2. ISRAEL FACES A CONTINUING NEED TO IMPORT VIRTUALLY ALL OF ITS OIL, AND AT SLIGHTLY HIGHER THAN WORLD AVERAGE PRICES. IT HAS HAD TO POSTPONE THE BUILDING OF UNDERGROUND OIL STORAGE FACILITIES DUE TO TECHNICAL AND GEOLOGICAL PROBLEMS BUT HOPES TO BEGIN CONSTRUCTION LATER THIS YEAR. MOREOVER, THERE IS INCREASING PRESSURE TO SPEND MORE ON LOCAL DEFENSE PRODUCTION TO SUPPORT THE DEFENSE INDUSTRY. THESE FACTORS, OPERATING AGAINST BUDGET CEILINGS IMPOSED FOR BOP AND ANTI-INFLATION REASONS, SEEM TO BE THE MAJOR REASONS FOR REQUESTING CASH GRANTS.

3. NEVERTHELESS, WE SEE THE ULTIMATE DIFFERENCE BETWEEN THE CASH GRANT AND A TIED CIP IN THE FUNGIBILITY OF A CASH GRANT. ONCE A FOREIGN CURRENCY GRANT ENTERS INTO

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THE GOI BUDGETARY PROCESS, ITS PARTICULAR END USE IS NEITHER IDENTIFIABLE NOR ESPECIALLY RELEVANT. THE OVERALL POOL OF RESOURCES IS INCREASED BY WHATEVER AMOUNT IS GRANTED AND THE EXCESS IS SPENT ON ACTIVITIES WHICH COULD NOT OTHERWISE BE UNDERTAKEN. SO EVEN IF WE WERE ABLE TO DETERMINE WHERE EACH DOLLAR OF A CASH GRANT IS SPENT, SAY ON OIL IMPORTS, OR PUBLIC HOUSING, OR EDUCATION,

WE WOULD ALSO HAVE TO REALIZE THAT FUNDS WHICH WOULD OTHERWISE BE SPENT ON THESE ACTIVITIES WILL BE DIVERTED TO OTHER, PERHAPS LESS DESIRABLE, USES.

4. AS FOR HOUSE SUB-COMMITTEE'S RECOMMENDATION THAT FY-78 CASH GRANT BE EXTENDED ON "ONE TIME BASIS" TO FINANCE OIL IMPORTS, WE WOULD SIMPLY COMMENT THAT ISRAEL'S OIL IMPORT BILL IS LIKELY TO GROW RATHER THAN DIMINISH IN YEARS AHEAD. OUR UNDERSTANDING IS THAT IN PST WE HAVE TRIED TO AVOID EARMARKING ASSISTANCE FOR SPECIFIC PROGRAMS, ESPECIALLY THOSE OF AN OPEN-ENDED NATURE.
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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC ASSISTANCE, FOREIGN ASSISTANCE
Control Number: n/a
Copy: SINGLE
Sent Date: 02-May-1977 12:00:00 am
Decaption Date: 22 May 2009
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977TELAV03046
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770153-0449
Format: TEL
From: TEL AVIV
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t197705102/aaaadkpe.tel
Line Count: 75
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 9e25e287-c288-dd11-92da-001cc4696bcc
Office: ACTION SS
Original Classification: CONFIDENTIAL
Original Handling Restrictions: EXDIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: EXDIS
Reference: 77 STATE 96508
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 21-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2325709
Secure: OPEN
Status: NATIVE
Subject: ISRAEL'S REQUEST FOR U.S. \$300 MILLION CASH GRANT FOR FY-78
TAGS: EAID, IS, US
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/9e25e287-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009